Alberta

Budget 2011

Building **a better Alberta**

Second Quarter Fiscal Update 2011–2012

Government of Alberta

November 2011

UPDATING ALBERTANS

The *Second Quarter Fiscal Update* consists of the updated 2011–12 forecast for the entire fiscal year. The actual results for the first six months of the fiscal year (April 1 to September 30, 2011), which are usually included, have not been compiled due to the government re-organization that occurred October 12, 2011.

TABLE OF CONTENTS

2011–12 FORECAST

Highlights 1
- Fiscal Summary 1
- Alberta Sustainability Fund 1

Revenue 2
- Revenue 3

Expense 4
- Expense Summary 5
- Expense by Ministry 5

Capital Plan 6
- Capital Plan Summary 6
- Capital Grants and Other Support 7
- Capital Investment and Amortization 7

Net Financial and Capital Assets 8
- Balance Sheet 8

Other Tables
- Cash Adjustments 9
- Disaster/Emergency Assistance 9
- 2011–12 Fiscal Year Assumptions and Sensitivities 10
- Financing Requirements 10

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Finance

2011–12 FORECAST

HIGHLIGHTS

Deficit. Forecast at $3.1 billion, $341 million lower than the *Budget 2011* estimate, but $1.7 billion higher than forecast at first quarter. The deficit and net cash requirements are offset by a transfer from the Alberta Sustainability Fund.

Revenue. Forecast at $36.8 billion, an increase of $1.2 billion from budget, but $1.5 billion lower than first quarter. Higher revenue from Crown lease sales and corporate income tax is partly offset by decreased revenue from personal income tax, bitumen and crude oil royalties and investment income.

Expense. Forecast at $39.9 billion, an increase of $860 million from the budget estimate and $210 million from the first quarter forecast, due primarily to disaster/emergency funding for forest fire-fighting and municipal wildfire and flood support, and higher capital grants and education funding. Total expense is net of expected in-year savings of $240 million.

Sustainability Fund. Forecast assets at March 31, 2012 of $8.1 billion, $2.8 billion higher than the *Budget 2011* estimate, but $1.6 billion lower than forecast at first quarter. The higher balance is due to the $619 million in cash from 2010-11 fourth quarter results transferred after March 31, 2011 (i.e., in the 2011-12 fiscal year), lower capital cash requirements mainly from the $1.1 billion in borrowing for capital purposes deferred from last year to 2011-12, and a positive swing in net other cash adjustments, mainly related to energy royalties (see page 9 for details).

FISCAL SUMMARY[a]

(millions of dollars)

	2011-12			
		2nd Quarter	Change from	1st
	Budget	Forecast	Budget	Quarter
Revenue [b]	35,600	**36,801**	1,201	(1,499)
Expense [c]				
Program expense				
Operating expense	33,943	**34,048**	105	43
Capital grants	3,895	**4,080**	185	42
Disaster / emergency assistance	-	**586**	586	130
Capital amortization / nominal sum disposals	808	**814**	6	(4)
In-year savings	(240)	**(240)**	-	-
Debt servicing costs	588	**566**	(22)	(1)
Total Expense	38,994	**39,854**	860	210
Surplus / (Deficit)	(3,394)	**(3,053)**	341	(1,709)
CASH ADJUSTMENTS (requirements) / sources				
Retained income of funds and agencies [b]	(948)	**(850)**	98	46
Capital cash adjustments	(1,018)	**26**	1,044	120
Other cash adjustments [b]	(540)	**134**	674	(75)
Net Cash Adjustments	(2,506)	**(690)**	1,816	91
Net Cash Requirements (Deficit + Net Cash Adjustments)	(5,900)	**(3,743)**	2,157	(1,618)
ALBERTA SUSTAINABILITY FUND	At March 31			
Balance at Start of Year	11,192	**11,192**	-	-
4th quarter results transferred after March 31, 2011	-	**619**	619	-
Transfer to offset cash adjusted deficit	(5,900)	**(3,743)**	2,157	(1,618)
Balance at End of Year	5,292	**8,068**	2,776	(1,618)

[a] Subject to the *Fiscal Responsibility Act*. Does not include revenue and expense of Crown-controlled SUCH sector organizations or Alberta Innovates corporations, or changes in pension liabilities.

[b] Budget revenue has been restated, increasing by $11 million as a result of Alberta Treasury Branches adopting International Financial Reporting Standards. This reduces the Budget deficit by $11 million, but also increases ATB retained income by $8 million and other cash adjustments by $3 million.

[c] Capital investment (not included in expense) 2,737 **2,822** 85 (104)

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at $10.1 billion, $1.8 billion higher than the budget estimate, due to higher land lease sales, but $522 million lower than forecast at first quarter, mainly from a decline in oil prices. The exchange rate is forecast to average US$1.005/Cdn$, 2.12¢ higher than budget, but 2.03¢ lower than first quarter. Year to date (April to October), the exchange rate has averaged US$1.019/Cdn$.

Bitumen royalties are forecast at $3.9 billion, $207 million lower than budget and $980 million lower than first quarter, due to higher operating costs and lower net revenue, and lower-than-forecast production. The WCS @ Hardisty price is now forecast to average Cdn$71.82 per barrel, close to the budget estimate but $4.52 lower than first quarter. Year to date (April to October), prices have averaged $77.68.

Conventional oil royalties are forecast at $1.7 billion, $231 million lower than budget and $462 million lower than first quarter. Oil prices are forecast to average US$89.50 per barrel for the fiscal year, close to the budget estimate, but US$8.35 lower than first quarter. Year to date (April to October), prices have averaged US$94.82. The decline in revenue from budget is mainly related to the higher exchange rate, while weakening oil prices are the main cause of the decline from first quarter forecast.

Natural gas and by-product royalties are forecast at $1 billion, close to the budget estimate and first quarter forecast. The Alberta Reference Price, used to calculate natural gas royalties, is forecast to average Cdn$3.30 per gigajoule for the fiscal year, 15¢ lower than budget and first quarter forecasts. Year to date (April to August), prices have averaged $3.38. The impact on revenue from lower natural gas prices is mainly offset by higher-than-expected production and by-product prices.

Revenue from bonuses and sales of Crown leases is forecast at $3.3 billion, an increase of $2.3 billion from the *Budget 2011* estimate and $955 million from the first quarter forecast, due to higher bid prices and numbers of hectares sold, including a record land sale totalling $842 million on June 1, 2011.

TAX REVENUE

Personal income tax revenue is forecast at $8.2 billion, a decrease of $458 million from budget and $538 million from first quarter, due to lower-than-expected 2010 assessment data. This reduces the base used to forecast revenue for the subsequent years, lowering the 2011-12 forecast by $186 million, and also requires a negative prior years' adjustment of $272 million, as revenue recorded for 2010-11 was too high.

Corporate income tax revenue is forecast at $3.9 billion, $301 million higher than estimated in *Budget 2011* and $276 million higher than forecast at first quarter, due to a higher forecast for corporate profits.

Other tax revenue is forecast at $3.9 billion, close to the budget estimate and first quarter forecast.

TRANSFERS FROM GOVERNMENT OF CANADA

Federal transfers are forecast at $4.7 billion, $29 million lower than the budget estimate and $161 million lower than the first quarter forecast, primarily due to a reduction in the Canada Health Transfer (CHT). Since Alberta's proportion of total national corporate tax assessment has increased, Alberta's share of the total CHT cash transfer is reduced. This is partly offset by increases primarily reflecting ecoTrust and labour market funding re-profiled from 2010-11, agriculture disaster assistance, affordable housing initiatives and Highway 63 twinning.

INVESTMENT INCOME

Investment income is forecast at $1.4 billion, $491 million lower than the budget estimate and $625 million lower than forecast at first quarter. Poor global equity markets in the second quarter have reduced expected Heritage Fund and endowment fund income by $692 million. Sustainability Fund income has increased due to a higher balance.

OTHER REVENUE

Revenue from other sources is forecast at $4.5 billion, $60 million higher than estimated in the budget and $74 million higher than the first quarter:

- $24 million increase in Alberta Treasury Branches net income due mainly to lower provision for credit losses;
- $12 million decrease from reversing the increase in municipal motor vehicle search fees;
- $11 million decrease in crop and hail insurance premiums from lower participation;
- A net $59 million increase in other revenue, mainly reflecting various over-accruals in 2010-11 expense, increased Canada Health Infoway funding and land sales in support of Land Stewardship Fund initiatives.

REVENUE

(millions of dollars)

	2011-12				
		2nd Quarter	Change from		
	Budget	Forecast	Budget	1st Quarter	Main Reasons for Change from Budget
Income Taxes					
Personal income tax	8,693	**8,235**	(458)	(538)	Lower prior-year assessment data
Corporate income tax	3,608	**3,909**	301	276	Increased forecast for corporate profits
	12,301	**12,144**	(157)	(262)	
Other Taxes					
Education property tax	1,634	**1,634**	-	-	
Tobacco tax	910	**910**	-	-	
Fuel tax	795	**795**	-	-	
Insurance taxes	322	**317**	(5)	-	Forecast revised based on 2010 cash receipts
Freehold mineral rights tax	142	**149**	7	(3)	Higher oil price
Tourism levy	63	**65**	2	-	Higher hotel rates and stays
	3,866	**3,870**	4	(3)	
Non-Renewable Resource Revenue					
Bitumen royalty	4,123	**3,916**	(207)	(980)	Lower production and higher operating costs
Crude oil royalty	1,925	**1,694**	(231)	(462)	Higher exchange rate
Natural gas and by-products royalty	1,022	**1,015**	(7)	(39)	Lower natural gas prices
Bonuses and sales of Crown leases	1,068	**3,326**	2,258	955	Higher prices per hectare and more hectares sold
Rentals and fees	141	**154**	13	8	More hectares sold
Coal royalty	42	**30**	(12)	(4)	Lower mine profitability
	8,321	**10,135**	1,814	(522)	
Transfers from Government of Canada					
Health transfers	2,302	**2,164**	(138)	(126)	Higher proportion of national corporate tax assessments
Canada Social Transfer	1,260	**1,261**	1	-	Higher population share
Agriculture support programs	287	**297**	10	(14)	AgriRecovery disaster assistance / insurance premiums
Labour market agreements	171	**184**	13	-	Funding from 2010-11
Other	748	**833**	85	(21)	Re-profiled 2010-11 / additional capital projects
	4,768	**4,739**	(29)	(161)	
Investment Income					
Alberta Heritage Savings Trust Fund	1,050	**472**	(578)	(527)	Weak equity markets
Endowment Funds	198	**84**	(114)	(100)	Weak equity markets
Alberta Capital Finance Authority	242	**242**	-	-	
Sustainability Fund	225	**430**	205	-	Higher balance from lower 2010-11 deficit
Agriculture Financial Services Corporation	115	**105**	(10)	(1)	Higher-than-expected loan repayments in prior years
Debt Retirement Account	26	**37**	11	2	Higher returns
Other	71	**66**	(5)	1	Lower balances
	1,927	**1,436**	(491)	(625)	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission					
Gaming and lottery revenue	1,388	**1,388**	-	-	
Liquor revenue	718	**718**	-	-	
Alberta Treasury Branches[a]	188	**212**	24	16	Reduction in provision for credit losses
Other	24	**25**	1	2	Credit Union Deposit Guarantee Corporation net income
	2,318	**2,343**	25	18	
Premiums, Fees and Licences					
Motor vehicle licences	431	**419**	(12)	(7)	Reversal of municipal motor vehicle search fee increase
Crop and hail insurance premiums	297	**286**	(11)	13	Lower participation due to higher commodity prices
Energy Resources Conservation Board levies	125	**125**	-	-	
Land titles	66	**66**	-	-	
Land and grazing	63	**63**	-	-	
Supplementary health benefits premiums	58	**57**	(1)	(1)	Lower volume
Other[a]	356	**358**	2	5	Higher ATB payment in lieu of taxes
	1,396	**1,374**	(22)	10	
Other					
AIMCo investment management charges	131	**135**	4	4	Reallocation of charges from internal to external clients
Fines and penalties	117	**121**	4	4	Corporate fine
Refunds of expense	112	**127**	15	13	Return of unrequired 2010-11 physician-related grants
Climate Change and Emissions Management	68	**68**	-	-	
Miscellaneous	275	**309**	34	25	Canada Health Infoway / Land Stewardship Fund sales
	703	**760**	57	46	
Total Revenue	35,600	**36,801**	1,201	(1,499)	

[a] Budget revenue has been restated as a result of Alberta Treasury Branches (ATB) adopting International Financial Reporting Standards. This increases ATB net income by $8 million and payment-in-lieu of taxes by $3 million (in "Other Premiums Fees and Licences").

EXPENSE

TOTAL EXPENSE

Total expense is forecast at $39.9 billion, $860 million higher than estimated in *Budget 2011* and $210 million higher than first quarter. Changes from budget consist of:

- $586 million in disaster/emergency assistance;
- $185 million increase in capital grants;
- $105 million increase in net operating expense (a net $17 million decrease in dedicated revenue-operating expense and a net $122 million increase in other operating expense);
- $6 million increase in amortization costs;
- $22 million decrease in debt servicing costs.

Disaster/emergency assistance – $586 million increase comprising $250 million for forest fire-fighting costs, $159 million for Slave Lake wildfires, $105 million for municipal flood assistance, $42 million for the AgriRecovery response to excess moisture conditions, and $30 million to combat mountain pine beetle infestations.

Capital grants – $185 million increase primarily due to faster-than-expected construction of P3 school projects, additional school projects, increased affordable housing initiatives, support for the Agrium Western Event Centre in Calgary, Slave Lake wildfire recovery and community projects.

Operating expense – $105 million increase, mainly for school board operations and fuel costs, contracted agency lump sum payments to employees, Travel Alberta and labour market initiatives, partly offset by a negative adjustment from lower-than-reported 2010-11 agriculture program expense.

In-year operating expense limit – Operating expense increases, excluding those for dedicated revenue-operating expense, are limited by the *Fiscal Responsibility Act* to 1% of total budgeted ministry operating expense. The limit is $339 million in 2011-12. Net increases as of second quarter total $122 million.

MINISTRY EXPENSE CHANGES

Advanced Education and Technology – $22 million increase in capital grants to post-secondary institutions funded by transfers from Treasury Board and Enterprise.

Agriculture and Rural Development – $6 million net decrease. Increases of $25 million in capital grants for the Agrium Western Event Centre, $42 million for the federal-provincial cost-shared AgriRecovery disaster response to excess moisture conditions, $10 million for federally-funded Growing Forward initiatives, $3 million for the federal-provincial cost-shared AgriRecovery response to poultry producers affected by *Salmonella Enteritidis* and a net $2 million in other increases are offset by a negative adjustment of $75 million from lower-than-reported 2010-11 AgriRecovery and AgriStability claims (with an associated negative federal revenue adjustment of $45 million) and $13 million lower forecast livestock insurance payments.

Culture and Community Services – $21 million increase in capital grants, for new projects and from re-profiling projects and federal funding from 2010-11.

Education – $230 million increase. Capital grants have increased $109 million, with $73 million for new schools and modular classrooms and $36 million re-profiled primarily from 2012-13 due to faster-than-expected construction of Alberta Schools Alternative Procurement P3 projects. School board operating grants have increased $123 million, restoring funding of $107 million, and adding $13 million for student transportation fuel costs and $3 million for teachers' salaries. A net $2 million decrease mainly relates to operating expense to capital investment transfer.

Health and Wellness – $31 million decrease from lower vaccine consumption and information system costs, and re-profiling of capital grants to future years.

Human Services – $18 million increase, with $13 million in federal labour market funding re-profiled from 2010-11 and a $9 million increase for contracted agency employee lump sum payments partly offset by a $4 million decrease in federally-funded Targeted Initiative for Older Workers.

Municipal Affairs – $309 million increase, comprising $159 million in wildfire disaster support and $10 million in capital grants for Slave Lake, $105 million for flood disaster support, $20 million for affordable housing funded by an increased federal transfer and $15 million in other municipal capital grants.

Sustainable Resource Development – $285 million increase, consisting of $250 million to fight forest fires, $30 million to combat mountain pine beetle infestations and $5 million in capital grants to Alberta land trusts.

Other Ministries – $34 million net increase, including federal ecoTrust funding re-profiled from 2010-11, provision for contracted agency lump sum payments to employees, increased Travel Alberta initiatives and highway maintenance activities.

Debt servicing costs – $22 million decrease, due mainly to the planned 2010-11 borrowing of $1.1 billion for capital purposes being delayed to 2011-12.

EXPENSE SUMMARY

(millions of dollars)

	2011-12			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Program Expense				
Operating expense [a]	33,943	**34,065**	122	79
Dedicated revenue / operating expense net changes [b]	-	**(17)**	(17)	(36)
Net operating expense	33,943	**34,048**	105	43
Capital grants	3,895	**4,080**	185	42
Capital amortization / nominal sum disposals	808	**814**	6	(4)
In-year savings	(240)	**(240)**	-	-
Disaster / emergency assistance	-	**586**	586	130
Total Program Expense	38,406	**39,288**	882	211
Debt Servicing Costs	588	**566**	(22)	(1)
Total Expense	38,994	**39,854**	860	210

[a] Prior to dedicated revenue / operating expense net changes.

[b] Dedicated revenue / operating expense changes – Agriculture and Rural Development: $33 million net reduction mainly reflecting a $45 million negative adjustment in federal revenue for 2010-11 AgriStability and AgriRecovery programs, partly offset by $12 million in federal funding for Growing Forward and response to producers affected by *Salmonella Enteritidis*; Human Services: $9 million net increase in federal transfers mainly due to re-profiling labour market funding from 2010-11; Environment and Water: $4 million increase for federal ecoTrust funding from 2010-11; net $3 million increase in other ministries.

EXPENSE BY MINISTRY [a]

(millions of dollars)

	2011-12				
		2nd Quarter	Change from	1st	
	Budget	Forecast	Budget	Quarter	Main Reasons for Change from Budget
Program					
Legislative Assembly	111	**114**	3	3	Election preparations
Advanced Education and Technology	3,009	**3,031**	22	13	Capital grants to post-secondary institutions
Agriculture and Rural Development	974	**968**	(6)	(28)	Lower participation in 2010-11 programs
Culture and Community Services	218	**239**	21	-	Capital grants re-profiled from 2010-11
Education	6,151	**6,381**	230	143	Operating support / additional capital grants
Energy	445	**445**	-	-	
Environment and Water	290	**304**	14	-	Federal ecoTrust funding re-profiled from 2010-11
Executive Council	29	**29**	-	-	
Finance	975	**975**	-	-	
Health and Wellness	14,947	**14,916**	(31)	(15)	Lower vaccine usage / re-profiling capital grants
Human Services	2,414	**2,432**	18	(4)	Federal labour market funding from 2010-11
Infrastructure	1,524	**1,521**	(3)	(8)	Capital for emergent projects transfers
Intergovernmental, International and Aboriginal Relations	172	**172**	-	-	
Justice	495	**495**	-	-	
Municipal Affairs	1,313	**1,622**	309	55	Slave Lake wildfire recovery / flood assistance
Seniors	2,107	**2,123**	16	6	Contracted agency employee lump sum payments
Service Alberta	300	**300**	-	-	
Solicitor General and Public Security	693	**693**	-	-	
Sustainable Resource Development	284	**569**	285	55	Forest fires / mountain pine beetle infestations
Tourism, Parks and Recreation	167	**181**	14	-	Travel Alberta / Calgary Stampede 2012 Centennial
Transportation	1,948	**1,957**	9	(7)	Highway maintenance
Treasury Board and Enterprise	80	**61**	(19)	(2)	Capital planning funds transferred to other ministries
In-year savings	(240)	**(240)**	-	-	
Total Program Expense	38,406	**39,288**	882	211	
Debt Servicing Costs	588	**566**	(22)	(1)	Delay in 2010-11 borrowing for capital purposes
Total Expense	38,994	**39,854**	860	210	

[a] Budget and first quarter numbers have been restated to reflect the re-organization of government departments established by Order in Council numbered O.C.439/2011, under the *Government Organization Act*, on October 12, 2011.

CAPITAL PLAN

2011-12 Capital Plan spending (capital grants and other infrastructure support included in expense, and capital investment in government-owned assets not included in expense) is forecast at $6.9 billion, $270 million higher than estimated in *Budget 2011*, but $62 million lower than the first quarter forecast. The increase from budget primarily consists of highway projects carried over from 2010-11, additional schools, the Slave Lake regional wildfire recovery plan and interim housing.

Municipal Infrastructure Support – $1.6 billion, an increase of $9 million from the budget estimate, including $10 million for Slave Lake support and $23 million mainly for water and wastewater infrastructure in Rocky View County and Lac La Biche, partly offset by $24 million in lapsed federal funding.

Provincial Highway Network – $1.8 billion, an increase of $143 million from budget. Increases of $116 million in projects carried over from 2010-11, $35 million for twinning of Highway 63 (funded by the federal government), $15 million for purchasing salt, sand and gravel for highway maintenance and a net $15 million mainly to re-profile P3 projects from 2010-11, are partially offset by re-profiling $38 million to future years.

Health Facilities and Equipment – $991 million, a decrease of $31 million from the budget estimate, comprising $17 million in projects re-profiled to future years, $8 million less in vaccine purchases due to lower demand and $6 million less for information systems.

Schools – $398 million, an increase of $109 million from the budget estimate, reflecting $73 million in new schools and modular classrooms and $36 million re-profiled primarily from 2012-13 due to faster-than-expected construction of Alberta Schools Alternative Procurement P3 projects.

Post-secondary Facilities – $273 million, an increase of $22 million from budget, funded by a transfer from the Government Facilities envelope.

Community Facilities – $148 million, an increase from budget of $28 million, including $25 million for the Agrium Western Event Centre and a net $3 million increase mainly from re-profiling of projects and for projects carried over from 2010-11.

Water and Wastewater Management – $310 million, an increase of $13 million from budget, reflecting $8 million for dam repairs and project planning, and $5 million mainly for projects carried over from 2010-11.

Housing – $369 million, an increase of $96 million from budget, consisting primarily of $65 million for Slave Lake interim housing, $20 million for affordable housing funded by an increased federal transfer, $10 million for continued Parsons Creek development and a net increase of $1 million for seniors' lodges.

Government Facilities, Equipment and Other Capital – $968 million, $119 million lower than budget. Increases of $104 million for various projects carried over and re-profiled from 2010-11 and $5 million for Alberta Land Trust grants, are more than offset by decreases of $150 million from re-profiling various projects to future years and a net $78 million from transferring funds to other Capital Plan envelopes and to operating expense.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2011-12			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Municipal infrastructure support	1,628	**1,637**	9	(10)
Provincial highway network	1,665	**1,808**	143	(38)
Health facilities and equipment	1,022	**991**	(31)	(19)
Schools	289	**398**	109	37
Post-secondary facilities	251	**273**	22	22
Community facilities	120	**148**	28	-
Water and wastewater management	297	**310**	13	2
Housing	273	**369**	96	7
Government facilities, equipment and other capital	1,087	**968**	(119)	(63)
Total Capital Plan	6,632	**6,902**	270	(62)

CAPITAL GRANTS AND OTHER SUPPORT[a]

(millions of dollars)

	2011-12			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Advanced Education and Technology	251	**273**	22	22
Agriculture and Rural Development	38	**63**	25	-
Culture and Community Services	48	**69**	21	-
Education	288	**397**	109	37
Energy	70	**70**	-	-
Environment and Water	90	**100**	10	-
Health and Wellness	59	**49**	(10)	(10)
Infrastructure	948	**939**	(9)	(8)
Municipal Affairs	938	**978**	40	-
Seniors	75	**74**	(1)	6
Sustainable Resource Development	-	**5**	5	5
Tourism, Parks and Recreation	1	**1**	-	-
Transportation	1,070	**1,062**	(8)	(8)
Treasury Board and Enterprise	19	**-**	(19)	(2)
Total	3,895	**4,080**	185	42

[a] Capital grants and other support are included in expense. Other support includes project planning, accommodation and facility preservation expense. Ministries not listed above have no capital grants or other support or the amount rounds to less than $1 million.

CAPITAL INVESTMENT AND AMORTIZATION[a]

(millions of dollars)

	2011-12 Capital Investment				2011-12 Capital Amortization			
		2nd Quarter	Change from			2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter	Budget	Forecast	Budget	1st Quarter
Legislative Assembly	5	**5**	-	-	1	**1**	-	-
Advanced Education and Technology	5	**5**	-	-	5	**5**	-	-
Agriculture and Rural Development	13	**13**	-	-	15	**16**	1	1
Culture and Community Services	3	**3**	-	-	3	**3**	-	-
Education	1	**5**	4	-	1	**1**	-	-
Energy	31	**31**	-	-	21	**21**	-	-
Environment and Water	1	**1**	-	-	22	**22**	-	-
Finance	23	**23**	-	-	11	**11**	-	-
Health and Wellness	85	**71**	(14)	(9)	75	**65**	(10)	(5)
Human Services	10	**11**	1	-	6	**6**	-	-
Infrastructure	449	**437**	(12)	-	100	**100**	-	-
Justice	3	**5**	2	-	9	**9**	-	-
Municipal Affairs	41	**108**	67	2	26	**26**	-	-
Seniors	1	**1**	-	-	1	**1**	-	-
Service Alberta	50	**23**	(27)	(32)	50	**50**	-	-
Solicitor General and Public Security	185	**200**	15	-	5	**5**	-	-
Sustainable Resource Development	15	**18**	3	-	16	**16**	-	-
Tourism, Parks and Recreation	14	**17**	3	-	18	**18**	-	-
Transportation	1,665	**1,819**	154	(38)	412	**427**	15	-
Treasury Board and Enterprise	137	**26**	(111)	(27)	1	**1**	-	-
Total	2,737	**2,822**	85	(104)	798	**804**	6	(4)

[a] Includes purchases of inventories. Capital investment and inventory purchases are not included in expense. Ministries not listed above have no capital investment or inventory purchases or the amount rounds to less than $1 million.

NET FINANCIAL AND CAPITAL ASSETS

Net Assets – At March 31, 2012, net assets are forecast at $34.1 billion, an increase of $0.3 billion from budget but $3.3 billion lower than March 31, 2011. This includes forecast financial assets of $49.2 billion, $2.5 billion lower than at March 31, 2011, capital assets of $20.9 billion, $1.9 billion higher than March 31, 2011, less liabilities of $36.1 billion, $2.7 billion higher than at March 31, 2011.

Heritage Fund and Endowment Funds – Forecast book value of Heritage Fund external assets is $14.6 billion, $15 million higher than budget and $355 million higher than at March 31, 2011, reflecting forecast inflation-proofing. Total assets of endowment and other funds are forecast at $3.2 billion at March 31, 2012, $107 million lower than budget and $90 million lower than at March 31, 2011.

Sustainability Fund – Assets are forecast at $8.1 billion at March 31, 2012, $2.8 billion higher than budget, but $3.1 billion lower than March 31, 2011. The increase from budget is due primarily to the $0.6 billion from 2010-11 fourth quarter results transferred into the Fund after March 31, 2011 (included in "Other financial assets" at March 31, 2011), lower capital cash requirements mainly from the $1.1 billion in borrowing deferred from last year to 2011-12, and a positive swing in energy cash adjustments. The decrease from last year is due mainly to the $3.1 billion transfer to offset the deficit, $0.9 billion in 2011-12 revenue that is retained by the Heritage Fund and other funds and agencies, partly offset by the $0.6 billion deposited in 2011-12 from 2010-11 fourth quarter results.

Total Liabilities – Forecast at $36.1 billion, an increase of $2.7 billion from March 31, 2011 and $1.4 billion from the budget estimate. The increase from last year is due mainly to a $2 billion increase in liabilities for capital projects, reflecting the planned $1.8 billion in direct borrowing and ongoing progress on P3 projects, and a net $1.1 billion increase in self-supporting lending organizations, primarily from higher Alberta Capital Finance Authority activity, which is more than offset by an increase in their assets.

BALANCE SHEET

(millions of dollars)

	at March 31				
	2011	2012			
	Actual	Budget [a]	2nd Quarter Forecast	Change from Budget	Change from 2011 Actual
Financial Assets					
Heritage Fund	14,198	14,538	**14,553**	15	355
Self-supporting lending organizations [b]	12,606	13,844	**13,915**	71	1,309
Alberta Sustainability Fund	11,192	5,292	**8,068**	2,776	(3,124)
Endowment and other funds [c]	3,302	3,319	**3,212**	(107)	(90)
Equity in commercial enterprises	2,615	2,852	**2,897**	45	282
Debt Retirement Account	843	503	**503**	-	(340)
Other financial assets	6,964	7,165	**6,043**	(1,122)	(921)
Total Financial Assets	51,720	47,513	**49,191**	1,678	(2,529)
Liabilities					
Accumulated debt	828	488	**488**	-	(340)
Pension liabilities	9,716	9,982	**9,982**	-	266
Self-supporting lending organizations [b]	11,627	12,626	**12,707**	81	1,080
Liabilities for capital projects	3,199	4,122	**5,241**	1,119	2,042
Other liabilities	7,952	7,436	**7,642**	206	(310)
Total Liabilities	33,322	34,654	**36,060**	1,406	2,738
Net Financial Assets	18,398	12,859	**13,131**	272	(5,267)
Capital Assets	18,975	20,854	**20,923**	69	1,948
Net Assets	37,373	33,713	**34,054**	341	(3,319)
Adjustment for pension liabilities	9,716	9,982	**9,982**	-	266
Net Assets for Fiscal Policy Purposes [d]	47,089	43,695	**44,036**	341	(3,053)

[a] Budget numbers have been restated to reflect 2010-11 actual results. The $619 million in cash from 2010-11 fourth quarter results transferred into the Sustainability Fund after March 31, 2011 is reported in "Other financial assets" in Budget numbers.

[b] Includes Alberta Capital Finance Authority and Agriculture Financial Services Corporation.

[c] Includes the Medical Research Endowment Fund, Science and Engineering Research Endowment Fund, Scholarship Fund, Alberta Cancer Prevention Legacy Fund and Alberta Enterprise Corporation.

[d] Under the *Fiscal Responsibility Act*. Excludes pension liabilities and equity of Crown-controlled SUCH sector organizations and Alberta Innovates corporations.

CASH ADJUSTMENTS[a]

(millions of dollars)

	2011-12			
		2nd Quarter	Change from	1st
	Budget[b]	Forecast	Budget	Quarter
Capital Cash Adjustments				
Requirements				
Capital investment	(2,737)	**(2,822)**	(85)	104
Principal repayment / amortization of debt issue costs	(19)	**(19)**	-	-
Total requirements	(2,756)	**(2,841)**	(85)	104
Sources				
Capital amortization	798	**804**	6	(4)
Net book value of capital asset disposals	2	**2**	-	-
Alternatively-financed capital investment	156	**168**	12	-
Alternatively-financed capital grants	45	**56**	11	20
Direct borrowing	737	**1,837**	1,100	-
Total sources	1,738	**2,867**	1,129	16
Total Capital Cash Adjustments	(1,018)	**26**	1,044	120
Retained Income of Funds and Agencies				
Heritage Fund inflation-proofing	(339)	**(355)**	(16)	(14)
Alberta Treasury Branches	(188)	**(212)**	(24)	(17)
Agriculture Financial Services Corporation	(259)	**(252)**	7	(24)
Alberta Social Housing Corporation	(57)	**(37)**	20	13
Access to the Future Fund	(50)	**(50)**	-	-
Endowment funds (Medical, Science and Engineering, Scholarship)	(30)	**83**	113	99
Alberta School Foundation Fund	(14)	**(11)**	3	-
Alberta Capital Finance Authority	(13)	**(13)**	-	-
Alberta Cancer Prevention Legacy Fund	10	**5**	(5)	-
Other funds	(8)	**(8)**	-	(11)
Total Retained Income of Funds and Agencies	(948)	**(850)**	98	46
Other Cash Adjustments				
Energy royalties	(428)	**310**	738	(144)
Student loans	(124)	**(124)**	-	-
Other	12	**(52)**	(64)	69
Total Other Cash Adjustments	(540)	**134**	674	(75)

[a] Negative cash adjustments are a cash requirement; positive cash adjustments are a cash source.

[b] Budget revenue has been restated, increasing by $11 million as a result of Alberta Treasury Branches (ATB) adopting International Financial Reporting Standards. Budget ATB net income is increased by $8 million, and the payment-in-lieu of taxes by $3 million. Consequently, the Budget ATB retained income cash adjustment has been increased by $8 million and other cash adjustments by $3 million.

DISASTER / EMERGENCY ASSISTANCE

(millions of dollars)

	2011-12			
		2nd Quarter	Change from	1st
	Budget	Forecast	Budget	Quarter
Agriculture and Rural Development				
AgriRecovery excess moisture initiative	-	**42**	42	25
Municipal Affairs				
Slave Lake wildfires[a]	-	**159**	159	-
Municipal flood assistance	-	**105**	105	55
Sustainable Resource Development				
Forest fire-fighting costs	-	**250**	250	50
Mountain pine beetle infestations	-	**30**	30	-
Total Disaster / Emergency Assistance	-	**586**	586	130

[a] Does not include $10 million in capital grants or $65 million in capital investment provided in 2011-12 for assistance in dealing with Slave Lake wildfires.

2011–12 FISCAL YEAR ASSUMPTIONS AND SENSITIVITIES[a]

	Sensitivities		Assumptions		
	Change	Net Impact ($ million)	Budget	1st Quarter Forecast	2nd Quarter Forecast
Oil price - WTI (US$/bbl)	-$1.00	-141	89.40	97.85	**89.50**
Natural gas price - Alberta Reference Price (Cdn$/GJ)	-10 cents	-51	3.45	3.45	**3.30**
Alberta Wellhead - conventional oil (Cdn$/bbl)			79.43	85.69	**81.37**
WCS @ Hardisty (Cdn$/bbl)			72.02	76.34	**71.82**
Production assumptions:					
Oil sands (000s barrels/day)			1,850	1,810	**1,801**
Conventional crude oil (000s barrels/day)			484	508	**493**
Natural gas (billions of cubic feet/annum)			4,055	4,306	**4,309**
Exchange rate (US¢/Cdn$)	+1 cent	-154	98.38	102.53	**100.50**
Interest rates:	+1%	-212			
3-month Canada treasury bills (%)			1.75	1.50	**0.95**
10 year Canada bonds (%)			3.65	3.55	**2.65**
Personal income growth (%, 2011 calendar year)	-1%	-115	5.9	6.4	**6.4**

[a] Sensitivities are based on the *Budget 2011* assumptions of prices and rates and show the effect for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land sales. The interest rate sensitivity has two components, an increase in cash interest income and capital loss. When interest rates rise, bond prices go down, causing a capital loss.

FINANCING REQUIREMENTS[a]

(millions of dollars)

	2011-12			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Financing Requirements				
Direct borrowing for capital purposes	737	**1,837**	1,100	-
Term debt borrowing for provincial corporations:				
Agriculture Financial Services Corporation	280	**295**	15	-
Alberta Capital Finance Authority	2,100	**2,100**	-	-
Alberta Treasury Branches	800	**1,350**	550	-
Total Financing Requirements	3,917	**5,582**	1,665	-
Financing Completed to Date				
Direct borrowing for capital purposes	-	**30**	30	30
Agriculture Financial Services Corporation	-	**75**	75	45
Alberta Capital Finance Authority	-	**915**	915	15
Alberta Treasury Branches	-	**1,350**	1,350	-
Total Financing Completed to Date	-	**2,370**	2,370	90

[a] Does not include alternative financing for capital projects (P3s).

NOTE: Actual results for the first six months of 2011-12 (April 1 to September 30) are not being published in the *2011-12 Second Quarter Fiscal Update*, as there was insufficient time to accurately assimilate and reconcile numbers from the old to the new ministry structure established by the October 12, 2011 government re-organization.